

**REQUEST FOR PROPOSALS  
FOR  
CORE PLUS FIXED INCOME**

**Alabama Trust Fund**

**April 2007**

**Alabama Trust Fund  
Board of Trustees  
Alabama State Capitol  
600 Dexter Avenue  
Montgomery, Alabama 36104**

## Section I

### **GENERAL INFORMATION**

#### **1. Purpose**

This Request for Proposal (RFP) has been issued by the Board of Trustees of the Alabama Trust Fund (Board). The Board solicits proposals from qualified professional firms interested in providing core plus fixed income investment management services (“the Manager”) to the Alabama Trust Fund.

This Request for Proposals (hereinafter “RFP”) is issued in accordance with the requirements of Section 41-16-72(4), Code of Alabama (1975). This RFP is not an offer to contract but seeks the submission of proposals from qualified, professional firms that may form the basis for negotiation of an Investment Management Agreement with one or more Investment Managers. *The Board reserves the right to reject any or all proposals and to solicit additional proposals if that is determined to be in the best interest of the Alabama Trust Fund.*

The Alabama Trust Fund’s investment consultant, Callan Associates, will be receiving and analyzing all responses from this manager search. All candidate firms must also have their information in the Callan manager database. There is no charge associated with this process. Please contact Christine Chao at 415-291-4012 to receive information about this process.

It is the intent of the Board to do business with Alabama firms that pay Alabama taxes and employ Alabama citizens. When all factors are equal, corporations located in Alabama will be given preference.

#### **2. History of the Alabama Trust Fund**

Discovery of natural gas in the Mobile Bay in 1978 led to active drilling and development of the large gas reserves below Alabama’s coastal waters. The State received bids totaling \$449 million in 1981 for the rights to develop offshore tracts. In 1982, voters approved the creation of the Alabama Heritage Fund (AHTF) with the revenues from this first sale of drilling rights. The AHTF income was used to finance a \$520 million bond issue for capital outlay projects.

On August 14, 1984, the state received more than \$347 million from leases awarded on offshore tracts. In 1985, the voters of the state approved Amendment 450 creating the Alabama Trust Fund (ATF) as an irrevocable permanent trust fund. The ATF was established to capture revenues from sales of offshore drilling rights and from royalties on the resulting gas production received since August 1, 1984. The amendment also terminated the Heritage Trust Fund in 2001 with all the trust capital transferred to the ATF. The initial corpus of the ATF was \$333,583,680. In December 2001, the Heritage Trust Fund transferred \$476,002,694 in trust capital to the ATF and as of December 31, 2006, the Alabama Trust Fund balance was approximately \$2.8 billion.

### **3. Scope of Services**

(a) The Manager shall develop a core plus fixed income investment portfolio of statutorily acceptable securities. It is expected that the initial funding will be approximately \$100 million. The Board shall establish the portion of assets to be managed and may, from time-to-time, change such portions.

(b) The Manager shall have independent discretionary authority with respect to the investment of that portion of the assets managed by the Manager, subject to the Code of Alabama, Investment Guidelines and such other written limitations as the Board may impose upon the Manager.

(c) The Manager shall provide reporting, to include monthly valuation, monthly performance reports, and significant changes in corporate structure, and other data to the Consultant.

(d) The Manager shall document all investment transactions with the Custodian in accord with usual and customary standards of practice, and confirm all executed transactions for custodial account records.

(e) Core Plus Fixed Income Managers will be evaluated.

(f) Core Plus Fixed Income defined: Core plus managers are benchmarked to the broad market (generally the LB Aggregate Index) and attempt to add value by tactically allocating portions of their portfolios among non-benchmark sectors (e.g. high yield credits, non-dollar bonds, and emerging markets) while maintaining exposure similar to the broad market. The percentage of a portfolio allocated to the non-benchmark sectors is variable, but is usually less than 25%. This tactical portfolio strategy allows, but does not require, active departures from the sectors defined by the benchmark.

### **4. Minimum Qualifications**

In order to be considered for selection as a Manager, the Proposer must provide Exhibit A as documented proof that the following minimum qualifications listed below are met.

- Company is duly registered with the Securities & Exchange Commission pursuant to the Investment Advisors Act of 1940, as amended, and the registration is current.
- Company is qualified with the Secretary of State to conduct business in the State of Alabama, or will be, if selected. (To download the form for a “Certificate of Existence”, access [www.sos.state.al.us](http://www.sos.state.al.us), corporations division, or call 334-242-5324 to request the form.)
- The portfolio manager assigned to the account has managed core plus fixed income portfolios for at least three (3) years, as of December 31, 2006.
- Company has managed core plus fixed income portfolios for at least three (3) years, as of December 31, 2006.
- Company does manage at least \$300,000,000 (preferably \$500 million) in core plus fixed income portfolios as of December 31, 2006.
- Company and its personnel have all authorizations, permits, licenses, and certifications as may be required under federal, state or local law to perform the services specified in this RFP at the time it submits a response to the RFP.

- Company will carry errors and omissions insurance or comparable instrument to cover negligent acts or omissions.
- Company does comply with all applicable Global Investment Performance Standards (GIPS.)
- Company maintains sufficient procedures and capabilities to ensure the timely and accurate backup and full recovery for all computers and other data storage systems related to the Alabama Trust Fund account.
- Company has a company policy and practice of equal employment opportunity and non-discrimination based on race, creed or gender.

## **5. Fees**

Managers shall be entitled to receive quarterly compensation. Fees shall be payable based upon the fair market value on the last business day of each quarter as reported by the Alabama Trust Fund Custodian. The proposal must state the fees charged for this service assuming a \$100 million mandate. Please show breakpoints in fee schedule.

## **6. Proposal Required Information**

Proposals should be as thorough and detailed as possible so that capabilities to provide the required services can be properly evaluated.

To be considered, responses to this RFP must include a cover page, Exhibit A, Section II of this RFP, a statement of fees, and Disclosure Statement. All proposals submitted in response to this RFP must include a completed Disclosure Statement as required by Section 41-16-80, et seq., Code of Alabama (1975). Copies of the Disclosure Statement, and information, may be downloaded from the Alabama Attorney General's web site at [www.ago.state.al.us/ag\\_items.cfm](http://www.ago.state.al.us/ag_items.cfm).

## **7. Submission of Proposals**

Proposals must be received at the following address **no later than the close of business on May 4, 2007**. Provide the original plus two (2) copies.

Attention: Bud Pellecchia  
Callan Associates Inc.  
200 Park Avenue, Suite 230  
Florham Park, NJ 07932

It is the responsibility of the Proposer to ensure that its proposal is timely delivered and received in the proper office on or before the deadline for responding to this RFP. All proposals received will be subject to public disclosure in accordance with Alabama public records laws.

All questions concerning this RFP should be directed to Bud Pellecchia at Callan Associates as follows:

Phone: 973-593-8050

Email: [pellecchia@callan.com](mailto:pellecchia@callan.com)

Mr. Pellecchia is the sole point of contact for purposes of this RFP. Discussions initiated by the Proposer with Alabama Trust Fund staff or Board members concerning this RFP prior to contract award may be grounds for elimination from the selection process.

## **8. Evaluation and Selection**

All proposals timely received will be reviewed and evaluated by the Investment Consultant. The Consultant will recommend proposals to the Investment Committee that most closely meet the requirements of the RFP.

After the review and evaluation of the proposals, the Board may conduct interviews. Finalists chosen for interviews, if necessary, will be notified. The Board reserves the right to request a best and final offer for fees from finalists.

The Board will select the Manager(s) the Board determines, in their sole discretion, to be fully qualified and best suited among those submitting proposals on the basis of the evaluation factors, including fees, to best meet the needs of the Alabama Trust Fund. *All proposals received in response to this RFP may be rejected and the Board may solicit additional proposals.*

Upon identification of the selected Manager, if any, the Board may initiate negotiations for contract terms and conditions. The contract will incorporate reference to the requirements of the RFP and the Manager's proposal as negotiated.

## **9. Investment Policy Statement**

The Board recognizes that the Guidelines need to be amended for "core plus" fixed income management. Please review the attached Alabama Trust Fund Investment Policy Statement and provide recommended changes to accommodate your style. Please recognize that your recommended changes will not automatically be accepted.

## **10. Public Information**

All responses received will be subject to the Alabama Open Records Act, §36-12-40, Code of Alabama and may be subject to public disclosure upon request. The Open Records Act is remedial and should therefore be liberally constructed in favor of the public. The Alabama Trade Secrets Act is §8-27-1 through §8-27-6, Code of Alabama. Responders are cautioned to be familiar with these statutes. The burden is on the one asserting the trade secret to show that the information sought to be protected meets the definition of a Trade Secret as defined by the Act.

Any RFP response submitted that contains confidential trade secrets or proprietary commercial information must be conspicuously marked on the outside as containing confidential information, and each page upon which confidential information appears must be conspicuously marked as such. Identification of the entire bid proposal as confidential is not acceptable unless the Firm enumerates the specific grounds or applicable laws which support treatment of the entire material as protected from disclosure according to the foregoing statutes or other applicable Alabama law.

The owner of the confidential information shall indemnify and hold the State of Alabama, the Alabama Trust Fund staff and Board members harmless from all costs or expenses, including but not limited to attorney fees and expenses related to litigation concerning disclosure of said information and documents.

## **Section II**

### **PROPOSAL**

#### **2.1 CORPORATE INFORMATION**

**A. Corporate Information** - Provide an overview of your firm, including the following:  
Corporate profile, including the financial condition of the firm, overall business objectives, strategic plans for growth, and ownership. Are there any changes pending in this profile?;

1. Information on all “related” or “affiliated” firms;
2. List all office locations and the functions performed at each location;
3. List all investment management services offered by the firm (i.e. Domestic Equity, Foreign Equity, Domestic Fixed Income, etc). Does the firm provide any other product or service other than portfolio management? Please list.
4. Provide details of any past or pending litigation relating to your firm, individual personnel, or to the management of client assets.
5. Provide details of any SEC, state regulatory, self-regulatory organization, or professional organization action taken against your firm or any of its owners, principals, or personnel.
6. Provide details of all SEC fidelity bonds, errors and omissions coverage, and any other fiduciary insurance, which your firm carries.
7. Describe all arrangements or understandings (written or oral) between your firm and any advisor, broker, law firm, or other individual or entity in connection with the solicitation or referral of clients between the firms.
8. Has your firm adopted policies consistent with GIPS trade management/soft dollar guidelines? If so, provide details.

#### **B. Personnel**

1. Attach an organizational chart and biographies of key personnel assigned to this account, including length of experience and expected retention. Key personnel includes investment officers, portfolio managers, and analysts.
2. Complete the following chart:

	Firm Total	Domestic Fixed Income
Total Full-time Employees	_____	_____
Portfolio Managers	_____	_____
Research Analysts	_____	_____
Market Strategists/Economists	_____	_____
Other Research	_____	_____
Customer Service	_____	_____
Marketing/Sales	_____	_____
Trading	_____	_____
Account Supervision/Performance	_____	_____
Administration/Office Management	_____	_____
Other _____	_____	_____
TOTAL	_____	_____

3. Provide the number of key employees added/lost over the last 3 years and explain any departures.

	#Added	#Lost	#Domestic Fixed Income Employees (added/lost)
2006	_____	_____	_____/_____ /
2005	_____	_____	_____/_____ /
2004	_____	_____	_____/_____ /

### C. Clients

1. Provide the organization name, address, contact name and phone number of at least three clients for whom similar services as described in this RFP are provided.
2. Provide a representative list of domestic fixed income clients.

## **2.2 INVESTMENT MANAGEMENT.**

### **A. Investment Philosophy and Style**

1. Describe the guidelines and risk control measures employed relative to your benchmark. Please explain your philosophy for non-benchmark sectors and the maximum allocation.
2. What decision factors add growth in the performance of your portfolio? Provide attribution analysis for 1 and 3 year periods ending December 31, 2006.
3. Describe your investment philosophy and style. Include a discussion of the following:
  - a. Universe of securities considered
  - b. Diversification/number of securities held in each portfolio
  - c. Investment time horizon/portfolio turnover policy
4. Compare your Core Plus U. S. Domestic Fixed Income Composite with the Lehman Aggregate benchmark as of December 31, 2006.

	<b>Avg Account</b>	<b>Lehman Aggregate</b>
Duration		
Effective Maturity		
Effective Yield		
Coupon Rate		
Option Adjusted Convexity		
% in high yield		
% in Other Non- Benchmark Sectors		

5. How much discretion is given each portfolio manager to buy/sell securities or to construct a portfolio?

6. Describe any quantitative/qualitative factors used in a buy decision. In a sell decision.
7. What is the main source of research used in the portfolio management process? If applicable, describe your reliance on in-house research in the context of personnel skills and experience.

**B. Assets and Account Management**

1. Will the Alabama Trust Fund account be managed by an individual or team of portfolio managers?
2. Provide the minimum, maximum, and average number of accounts managed by domestic fixed income portfolio managers. What is your firm's policy regarding this number?
3. Account Size
 

Largest Fixed Income Separate Account	\$ _____
Smallest Fixed Income Separate Account	\$ _____
Average Fixed Income Separate Account	\$ _____
4. What is the minimum account size for a separate account?      \$ \_\_\_\_\_
5. Total Firm Assets Under Management as of December 31, 2006.

	\$ Equity	\$ Other	\$ Fixed	\$ Total
Public				
Corporate				
Endow/Found				
Taft-Hartley				
Other				
TOTAL				

6. Domestic Fixed Income Assets Under Management as of December 31, 2006.

	Tax- Exempt	Taxable	Other
TOTAL			

7. Provide a breakdown of large cap growth Separate Accounts by asset size as of December 31, 2006.

Size of Account	\$ Total Assets	# Accounts
Under \$10 million		
\$10 to \$50 million		
\$50 to \$100 million		
Over \$100 million		



8. Provide the following information regarding Client Gains (separate accounts).

	\$ Total Assets	# Accounts	\$ Domestic Fixed Income	# Domestic Fixed Income Accounts
2006				
2005				
2004				

9. Provide the following information regarding Client Departures (separate accounts).

	\$ Total Assets	# Accounts	\$ Domestic Fixed Income	# Domestic Fixed Income Accounts
2006				
2005				
2004				

**C. Performance.** All performance data presented should be subjected to a Level 1 verification of results and composite. Level 2 verification of performance results and composite is preferable. Performance will be evaluated using the Lehman Aggregate Index.

1. Provide performance data for your Active Domestic Core Plus Fixed Income Composite.

	% 12MO	% 1Q	% 2Q	% 3Q	% 4Q	# Accts	Assets 12/31	Dispersion (Standard Deviation)
2006								
2005								
2004								
2003								
2002								

2. Provide trailing performance data for your Active Domestic Core Fixed Income/Core Plus Fixed Income Composite for the periods 1 year, 3 years, 5 years and 10 years ending December 31, 2006.

3. Provide the following statistics when fully invested for 3-year period ending 12/31/06:

Beta \_\_\_\_\_ Source \_\_\_\_\_ Lehman Aggregate \_\_\_\_\_  
R2 \_\_\_\_\_ Source \_\_\_\_\_ Lehman Aggregate \_\_\_\_\_  
Alpha \_\_\_\_\_ Source \_\_\_\_\_ Lehman Aggregate \_\_\_\_\_  
Tracking Error \_\_\_\_\_ Source \_\_\_\_\_ Lehman Aggregate \_\_\_\_\_  
Information Ratio \_\_\_\_\_ Source \_\_\_\_\_ Lehman Aggregate \_\_\_\_\_

4. Describe the composite used to compute performance results reported in answering #1, #2, and #3 above.
5. Discuss turnover in the portfolios you currently manage and your tolerance for volatility.

**EXHIBIT A**  
**MINIMUM QUALIFICATIONS AND MISCELLANEOUS INFORMATION**

1. Information Regarding Manager

Name:

Address:

Phone Number

Fax Number:

2. My Company is duly registered with the Securities & Exchange Commission pursuant to the Investment Advisors Act of 1940, as amended, and the registration is current.

Yes\_\_\_\_\_

No\_\_\_\_\_

3. My Company is qualified with the Secretary of State to conduct business in the State of Alabama. (To download the form for a "Certificate of Existence", access [www.sos.state.al.us](http://www.sos.state.al.us), corporations division, or call 334-242-5324 to request the form.)

Yes\_\_\_\_\_

No\_\_\_\_\_

4. The portfolio manager assigned to the Alabama Trust Fund's account has managed core plus fixed income portfolios for at least three (3) years, as of December 31, 2006.

Yes\_\_\_\_\_

No\_\_\_\_\_

5. My Company has managed core plus fixed income portfolios for at least three (3) years, as of December 31, 2006.

Yes\_\_\_\_\_

No\_\_\_\_\_

6. My Company does manage at least \$300,000,000 (preferably \$500 million) in core plus fixed income as of December 31, 2006.

Yes\_\_\_\_\_

No\_\_\_\_\_

7. My Company and its personnel have all authorizations, permits, licenses, and certifications as may be required under federal, state or local law to perform the services specified in this RFP at the time it submits a response to the RFP.

Yes\_\_\_\_\_

No\_\_\_\_\_

8. My Company will carry errors and omissions insurance or comparable instrument to cover negligent acts or omissions.

Yes\_\_\_\_\_

No\_\_\_\_\_

9. My Company does comply with all applicable Global Investment Performance Standards (GIPS).

Yes\_\_\_\_\_

No\_\_\_\_\_

10. My Company maintains sufficient procedures and capabilities to ensure the timely and accurate backup and full recovery for all computers and other data storage systems related to the Alabama Trust Fund's account.

Yes\_\_\_\_ No\_\_\_\_

11. My Company has a company policy and practice of equal employment opportunity and non-discrimination based on race, creed or gender.

Yes\_\_\_\_ No\_\_\_\_

12. My company has an office location in Alabama.

Yes\_\_\_\_ Provide City \_\_\_\_\_ No\_\_\_\_

13. Primary Contact Concerning the Proposal:

Name:

Address:

Phone Number:

Email: